THE COTTON PROGRAM OF THE AGRICULTURAL ADJUSTMENT ADMINISTRATION

Address by D. S. Murph, Chief of Cotton Processing and Marketing Section, Agricultural Adjustment Administration, Delivered at Annual Meeting of the National Cotton Manufacturers' Association, Boston, Mass., October 4, 1933

In view of the unprecedented governmental activities of today in the fields of industry and agriculture, it is but natural for American citizens and business men to ask what it is all about. Why is the Government so largely concerned with the management of industry? Why is it invoking its mighty powers in the redirection of agricultural life and activities? What is it doing and what does it hope to accomplish? To try to answer these questions, in part at least, as they relate to agriculture in general and to the problems of cotton in particular is my purpose today.

May I remind you at the outset that our agricultural problems are but a part of the more inclusive problems of the Nation at large, and that the Government's program for the resuscitation of agriculture is only a part of the larger program to bring order out of chaos, to substitute prosperity for business collapse and, in recognition of the rights of men as men, to replace squalor with decency and poverty with comfort - in short, to actualize an ideal which hitherto has been a dream.

Let us look for a moment at the plight of the farmer. To understand his situation in 1933 it is necessary to provide a background in the past against which the present may be intelligently viewed. With a fair standard we can make a fair comparison.

Quite evidently, in a business so subject to yearly fluctuations as agriculture, a single year would not be a sufficient basis for such purpose. Rather must a period of years be sought in which conditions were practically at an equilibrium. Such a period is to be found in the years from 1909 to 1914. By the beginning of this period recovery had been effected from the long stretch of declining prices which extended from 1865 to 1897. During these five years there were, in general, no violent fluctuations in the conditions of agriculture or business and the relationship between them was relatively constant. There was no major drift of population from the farms to the cities, and the highly abnormal conditions engendered by the World War had not yet come about. (See Figure 1.) So this five-year period may be taken as a fair reference point or background of parity.

About the close of this period, conditions set in motion by the World War began to make themselves felt and there began that rapid rise in prices of agricultural and nonagricultural products which culminated early in 1920.

During the years 1917, 1918 and 1919 farm prices, responding rapidly to these new forces, among which was an extraordinary demand for farm products, due in part to the partial cessation of agricultural activities in Europe, rose above the prices of nonagricultural products. This trend continued until early in 1920, when there was a shift in positions, which continued, with slight interruptions in 1924 and 1925 and 1927 to 1930 until the present date.

Taking the peak year 1919 as a starting point, let us see what has happened to the farmers' income. In that year the gross income from agricultural products in this country was $16,935,000,000; in 1924 it was $11,337,000,000; in 1929 it was $11,911,000,000 and in 1932 $5,143,000,000. These figures are shown in percentages on the chart. (Figure 2.) Gross income from cotton and cottonseed was, for 1919 $2,272,043,000; for 1924, $1,710,000,000; for 1929, $1,389,000,000; and for 1932, $431,000,000.

Not to consider the peak prices of 1919, the gross income from agricultural products shrank from $11,337,000,000 in 1924 to $5,143,000,000 in 1932; and the gross income from cotton and cottonseed shrank from $1,710,000,000 to $431,000,000, or practically 75 percent.

From 1924 to 1929 income from agricultural production as a whole remained about constant, while the total national income, on the other hand, rose rapidly. As a result, agriculture's share in the national income fell from about 11 percent in 1925 to about 9 percent in 1928. At least during the early years of the depression, prices of agricultural products dropped much more rapidly than the prices of nonagricultural products until in 1930 agriculture's share of the national income was probably not more than 8 percent and in 1931 not more than 7 percent. Incidentally, agriculture's share of the national income was over 16 percent in 1910, at the beginning of the base period.

To approach the matter from another angle, let us examine the purchasing power of agricultural products. (Figure 3.) As already indicated, throughout the base period, 1910 to 1914, the prices farmers received for their products and the prices they paid for the things they bought were relatively constant; they may be represented by the figure 100. During the war period the farmer's purchasing power increased, for the reason that the prices he received for his products rose more rapidly than the prices he paid for the things he bought. This condition was reversed in 1920, when the prices the farmer received dropped below the prices he paid. Ever since that time, prices received by farmers for their products have continued below prices they paid for the things they bought. At no time since 1920 has the farmer's purchasing power reached parity. When the depression came, agriculture again suffered more than industry. Even at the peak of prosperity, in June 1929, the farmer's purchasing power was only 89 percent of parity. From that time on there was a steady decline until in February, 1933, it reached the low point of 49 percent of parity.

Conditions such as these could lead to but one result - bankruptcy. Even throughout the years of national prosperity our farming population was living on its capital. Unable even to pay existing debts, farmers mortgaged their crops, their stock, their machinery and their land, in order to get money to live on and to operate their farms, looking, with characteristic optimism, for the turn of events which should lead them again to solvency. That turn never came. Mortgages were foreclosed, lands were sold for taxes and farmers who had hitherto lived in an atmosphere of security were reduced

to tenants, eking out a scanty livelihood from the soil, and practically without ability to buy the decently necessary things of life.

For a few years after the war, business, as already suggested, forged ahead and drew away from agriculture because of reconstruction and extension in a few of our major industries. For a time industry seemed not to be dependent upon a prosperous agriculture for a market for its products; but when the boom had spent its force, business turned in vain to an exhausted agriculture for a market, and the close inter-relationship of agriculture and business then became fully evident. To practically destroy the purchasing power of our 32,000,000 agricultural population is to withdraw from business one of its most powerful supports. You, as manufacturers, have first hand knowledge of this situation from your own experience. So closely related are agriculture and business that the collapse of one spelled ruin, in many instances, to the other. To give but one illustration, I shall refer to the startling parallel between agricultural prices and bank failures. (Figure 4.) On a chart, bank suspensions appear as a reverse image of farm prices. As farm prices increased from 1923 to 1925 bank failures declined. In 1926 farm prices dropped and bank failures rose. A slight improvement in farm prices in 1927 was at once reflected in a decrease in bank failures. In 1928 and 1929 a gradual decline in farm prices marked a gradual increase in bank mortality. Finally, the debacle in farm prices in 1929 and subsequent years was accompanied by a holocaust of banks.

To this economic breakdown of agriculture, presenting a condition which menaced also the business life of the Nation at large, the Agricultural Adjustment Act was the Government's answer. It was the answer, too, of humanity to laissez faire, the proclamation of new ideals, the bearer of a new hope.

The fundamental purpose of the Act is to reestablish agricultural prices at parity, that is, to restore to farm products the purchasing power which they had in the base period from 1910 to 1914. This purpose is to be accomplished principally through the adjustment of agricultural supplies to market requirements, foreign and domestic. The method of application of this adjustment will vary in different circumstances and for different commodities. In one case, reduction in future production may be indicated; in another, increased consumption of present supplies; in still another, both may be necessary.

In the case of cotton the outstanding fact was the existence of an enormous surplus, accrued during several years.

The year 1928 and the first half of 1929 found production of cotton in the United States fairly well balanced with world consumption. The surplus which had temporarily resulted from the great crop of 1926 had been substantially absorbed, and on the first of August, 1929, there was carried over a little less than 4,500,000 bales of American cotton, an ample but hardly excessive quantity.

One of the first and most immediate effects, however, of the crisis of 1929 was to curtail consumption of cotton. From approximately 15,000,000 bales in the twelve months ending with July 31, 1929, annual consumption of American cotton by the United States and foreign countries fell in two years

to less than 11,000,000 bales. Growers, however, who had pitched their production to the high rates of consumption prevailing in the years of prosperity, were unprepared to make a correspondingly sudden readjustment in their operations. The crop of 1929, of a little less than 15,000,000 bales, substantially exceeded consumption in 1929-30. Although this was not an excessive crop judged by the consumption in the immediately preceding years, the declining rate of consumption left from it the nucleus of our present surplus.

In the following year, although curtailment of acreage and lower yields reduced the crop about 1,000,000 bales from that of 1929, the low point to which consumption had then fallen left production in still greater excess and increased the surplus by roughly another 2,000,000 bales.

In the next year, 1931, under pressure of ruinously low prices, cotton growers reduced their crop area by 4,200,000 acres, which was about 9.7 percent of the preceding year's acreage, but the effect of this reduction was submerged by the unexpectedly and extraordinarily favorable growing conditions of that year. These factors increased the average yield from approximately 150 pounds to over 200 pounds per acre, and a crop of more than 17,000,000 bales resulted. This crop exceeded consumption for the third successive year, by so much that on August 1 of 1932 the carry-over had mounted to practically 13,000,000 bales.

The supply of American cotton in 1932-33, the season within which the Agricultural Adjustment Administration was inaugurated, consisted of this unparalleled carry-over of about 13,000,000 bales plus a crop of practically 13,000,000 bales, or a total supply of nearly 26,000,000 bales, almost 2,800,000 bales greater than the total consumption of American cotton during the previous two seasons combined.

When the Act became effective in May of this year, the first big job was to get rid of, or at least make a substantial dent in this surplus which hung like a mill stone about the neck of prices. The situation was peculiar. The 1933 crop had already been planted. The land was preempted, fertilizer and labor expenses had been incurred, and the new crop was under way. Still, the most vulnerable attack on the surplus appeared to be through this growing crop. The plan which appeared most feasible, was, therefore, to take out of production some of the land already planted to cotton, that is, to destroy a part of the growing crop; to make payments to farmers, in view of expenses already incurred in connection with the cotton so to be destroyed; and to give them an opportunity to balance the destruction of this crop with the higher prices they would logically receive for the part of the crop which would come to maturity and to market. The compensation to be paid any farmer by the Government was to be based upon the estimated yield of the land which he took out of production.

Under one schedule the compensation included a cash payment per acre, together with an option, at the rate of six cents per pound, on Government-owned cotton, in an amount equal to the estimated yield of the land which the farmer removed from cotton production. That is, the amount of cotton on which he would get an option would be the amount he was estimated to have destroyed under the operation of the plan. This option cotton was to be sold by the

Secretary of Agriculture at the farmer's direction and the farmer would receive the profit, if any, from the transaction. He would thus be put in the position of having received from the Government the expenses he had already incurred in producing the destroyed cotton and would still be allowed an opportunity to profit from the price advance expected to follow the destruction of a part of the crop. For the benefit of those farmers to whom immediate cash was particularly important, another schedule was adopted, providing for full compensation in cash, without option on any cotton. A farmer who was compensated under this schedule naturally received a larger cash payment than a farmer who also received an option.

It must be borne in mind that the Government's plan was to take out of production enough of the land planted to cotton to reduce materially the supply of cotton that would be available for use during the coming year. In order to do this, it was necessary that there should be the closest cooperation between farmers throughout the Cotton Belt. And for the first time the farmers had an opportunity for action under conditions which would insure general and effective cooperation. Prior to this time efforts had been made of one kind and another to adjust the supply of cotton to the demand. One or two of the States enacted legislation intended to effect drastic curtailment in acreage planted to cotton. This legislation naturally was conditioned upon the enactment by other States of similar legislation, since it was recognized that unless reduction became general it could not be effective. The number of States required for the success of this plan failed to respond and the plan was abandoned. Then came the action of the Federal Farm Board in purchasing and taking off the market a large quantity of cotton; but as there was no accompanying reduction in production and as world consumption subsequently failed to absorb this cotton, it still hung over the market and the hoped for relief did not follow.

What was lacking in all such efforts was a powerful coordination of attempts to reduce the surplus at the source. This opportunity was presented under the plan announced by the Agricultural Adjustment Administration this year. The removal from production of a substantial part of the acreage planted to cotton and the elimination from the prospective supplies of several million bales of cotton was the goal to be attained. The Administration set a certain period of time within which farmers throughout the Cotton Belt were to offer to make reductions in their acreage under the plan already outlined. The acceptance of these offers was left to the discretion of the Secretary of Agriculture, to whom was given a stated period in which to determine whether the offers made would cover sufficient acreage and prospective production to warrant putting the plan into effect. Unless offers should be made of sufficient volume to bring about the desired reduction, all offers would be refused and the status of the farmers who made them would not be changed. If, on the other hand, offers made were of an amount sufficient to bring about a material reduction in the prospective supply, then the Secretary of Agriculture would accept the offers made and all farmers who had agreed to destroy part of their crops would have the assurance that they were doing so as part of an immense organized movement to achieve a definite goal, a program in which they had the cooperation of hundreds of thousands of their fellow farmers, and that they were not standing alone and working single handed in an effort to solve a general problem.

When the plan had once been agreed upon, a vast campaign was undertaken through the State Directors of Extension, the County Farm Agents and others who were ready to cooperate. Organizations were effected in every county in the

Cotton Belt. Committees for the States, for the counties and for local communities were appointed to put the plan into effect. When preparations were completed, an army of 22,000 workers went forth throughout the Cotton Belt to make individual contacts with the farmers, to explain the plan to them and to receive their offers for reduction of cotton acreage. The response of the cotton farmers was magnificent. They knew conditions, they understood the remedy and they were ready to join in the fight. Enthusiasm ran high! Individual farmers became boosters for the program. Public sentiment was all for the plan and more than 1,000,000 farmers signed offers to reduce their acreage by destroying a part of their growing cotton. The conditions of the Secretary of Agriculture having been complied with by the farmers, their offers were accepted. More than 10,000,000 acres of cotton were ploughed up, and prospective supplies of more than 4,000,000 bales were destroyed. Then came the mechanics of remuneration. A unit, employing several hundred people, was set up in Washington. This section worked day and night, in three shifts of eight hours each, to examine and check the farmers' offers, to prepare acceptances and issue checks. Most of these farmers have already supplied to the Government the required proof of the destruction of their cotton and thousands of checks are being mailed daily. In the end nature was not kind to the Administration. Unusually favorable weather conditions prevailed in the Cotton Belt and, despite the reduction of the potential crop by more than 4,000,000 bales, there was left an indicated production of 13,100,000 bales. Prices being received by farmers for this cotton are not at parity but they are admittedly so much better than those which would have been received if the reduction had not been made, and the potential future effects of the acreage reduction on prices is so significant, that the success of the program is accepted as an accomplished fact. (See Figure 5.)

So much for the first phase of the program for the control of production. The plan for 1934 has already been announced, and organization is under way to carry it into effect.

In order to take care of extraordinary expenses incurred by reason of this national emergency, the[1] Act provides for the levy of processing taxes upon the first domestic processing of basic agricultural commodities, whether of domestic production or imported, on which benefit payments - such as those just referred to - are to be made. It is provided that these taxes shall be at such rate as equals the difference between the current average farm price and the fair exchange value of the commodity. By the fair exchange value is meant the farm price for a commodity that will give to it the same purchasing power with respect to articles farmers buy as it had during the base period, 1910 to 1914. The current average farm price and the fair exchange value are to be ascertained by the Secretary of Agriculture from available statistics of the Department of Agriculture. By appropriate proclamation the Secretary of Agriculture declared that the marketing year for cotton begins on August 1, and by a simple process of arithmetic it was determined, from statistics of the Department, that the rate of the processing tax on cotton for the year beginning August 1, 1933, would be 4.2 cents per pound, net weight. This figure represents the difference between the fair exchange value, or parity price, for cotton and the current average farm price at the date the rate of the tax was fixed. It means that at such date the farmer was getting 4.2 cents less per pound for his cotton than it would be necessary for him to get in order that his cotton might have the same purchasing power with reference to the articles farmers buy that it had during the base period. This difference is less than the present difference. If the rate of the

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1/ Public No. 10 - 73d Congress.

processing tax were to be established on present figures, it would be more than five cents per pound. In order that there may be no confusion in your minds as to what takes place with reference to this tax, may I repeat, in another form, that the Act itself imposes the tax and the Secretary of Agriculture determines the rate of the tax, under the rules prescribed by the Act itself.

But on the date on which a processing tax goes into effect as to any commodity, quite naturally there will be in the hands of manufacturers, jobbers and others many articles already processed from such commodity. In order to preserve the equilibrium between the raw commodity and the products thereof, and in the interest of orderly processing and fairness, the Congress provided for a floor stocks tax on articles processed from a commodity with respect to which a processing tax had been levied, such tax to be levied as of the same date on which the processing tax takes effect. Under this provision a floor stocks tax on articles processed from cotton became effective on August 1, 1933. A conversion factor of 105.2 percent for the cotton content of such articles was determined upon and established by the Secretary of Agriculture, with the approval of the President, under the terms of the Act. By such means the tax program was made effective.

It is estimated that the processing tax on cotton will yield during the year 1933-34 approximately $110,000,000. This means an average of about 87-1/2 cents per person in the United States per year, or less than 7-1/2 cents per month. The amount which is added by the tax to the cost of any article processed from cotton depends, of course, upon the weight of the cotton content of such article. To give a few examples based upon average retail prices, in five stores in each of twenty-two cities, the amount of the tax on a sheet (81" x 99") was 7.7 cents, on a work shirt 3.5 cents, on a pair of overalls 8.3 cents and on a yard of unbleached muslin 1.1 cents. The amount of the tax on finer goods naturally would be less.

The question of foreign trade, imports and exports, naturally comes into the picture. Provision is made in the Act for the levying and collection of a compensating import tax upon any article processed or manufactured from a commodity on which a processing tax has been levied. Such compensating tax equals the amount of the processing tax in effect with respect to domestic processing at the time of importation. In other words, the compensating import tax is designed to place the imported article on the same basis, insofar as the processing tax is concerned, as the domestically processed article. In like manner, under the terms of the Act, whenever there is exportation of a product with respect to which a tax has been paid, or of a product processed from a commodity with respect to which a tax has been paid, the exporter is entitled, at the time of exportation, to a refund of the amount of such tax. These two provisions were designed, obviously, to protect American business from a flood of importations of untaxed products and from a tax burden upon exports.

As another matter of equalization, the Act contains a provision authorizing the imposition of a tax upon any commodity competing with a basic agricultural commodity with respect to which a processing tax has been levied, if the payment of the processing tax on the basic commodity causes processors thereof disadvantages in competition from such competing commodity, by reason of excessive shifts in consumption between such commodities or the products thereof. Reduced to terms of cotton, this means that if the Secretary of Agriculture shall

determine that the payment of a processing tax upon cotton is causing or will cause to the processors of cotton disadvantages in competition from a competing commodity by reason of excessive shifts in consumption between cotton and such commodity, then a countervailing processing tax upon the competing commodity will be imposed. An organized group of trained investigators is now working on the problems of allegedly competing commodities. Yesterday and the day before, a public hearing was held in accordance with the law, to give interested persons an opportunity to present data bearing on this question, as to paper, jute and a number of other fibres. These investigations are going forward as rapidly as possible and if the Secretary determines, in view of all the facts, that the applicable conditions of the law are present as to any commodity competing with cotton, then a compensating tax will be imposed upon such commodity.

I must refer to one other project in which the Administration is participating in its efforts to bring about the adjustment contemplated by the Act. There are large surplus supplies of several of the basic agricultural commodities, and, unfortunately, many of our people, despite the earnest efforts of citizens and Government, are still in dire need of food and clothing. A coordination of relief work and agricultural adjustment by various agencies of the Government is being rapidly worked out and made effective, by which surplus supplies will be reduced, idle laborers will be given employment and the needy will be fed and clothed. This project should not interfere with regular business carried on through customary channels since the distribution will be made to persons who could not buy food and clothing any way, and it should lighten the burden of relief to be administered by individuals. How much cotton will be used in this way, the exact forms in which it will be distributed, the number of laborers who will be employed, the amount of work that will be given to manufacturing establishments and the degree of relief that will be afforded are matters concerning which I am unable to offer a forecast at this time.

There is but one other point to which I wish to direct your attention. When Mr. Peek accepted the responsibility for the administration of the Agricultural Adjustment Act he said that the sole aim and object of the Act was to raise farm prices, and that "to the food and textile industries, I want to make it clear that the spirit and purpose will be to act with as little interference with established institutions and methods -- indeed with as little administration as is consistent with the fixed purpose of the law; namely, to raise farm prices. It is my opinion that much of that purpose can be accomplished by these industries without anything more than the aid that government and agriculture can and will give them. The first step will be to discuss with industries and trades our purposes, to ask them what they need from farmers and from government, and to call upon them with the help of those concerned, to work out the difficult task themselves in such manner as will least interfere with their business and established methods, with as little government interference in their affairs as is reasonably possible." Mr. Peek has recently stated that this policy still stands.

It is the intention of the Agricultural Adjustment Administration to make its plans effective in coordination and cooperation with all branches of industry that have to do with the agricultural commodities concerned. Such cooperation is essential to a completely successful accomplishment of its purposes. I am sure that the great cotton manufacturing industry which you represent, and which was the first to respond to the call of the National Industrial Recovery Administration, will not be found wanting in such cooperation. You have evidenced your

desire to go along with the President in the operation of your plants and in the relationships among yourselves and with your employees. I am sure that the same spirit will urge you to cooperate to the fullest extent with his coordinate plans for rehabilitation of agriculture, so that America may have a balanced and complete return to normal life.

A stupendous problem is facing the American people and, as the President has said, the people alone can make a success of the program which has been laid before them. The people will not fail in this emergency! Common sense, confidence in the President's leadership and recognition of the economic and social ties that bind all parts of the Nation together, will not let us shrink from our plain mandate. I know of no more fitting exhortation in this connection than the inspiring words of Emerson:

"So nigh is grandeur to our dust,
So near is God to man,
When duty whispers low 'Thou must'!
The youth replies 'I can'!"

WHOLESALE PRICES AND RATIO, FARM AND NONAGRICULTURAL PRODUCTS BY MONTHS, 1910 TO DATE

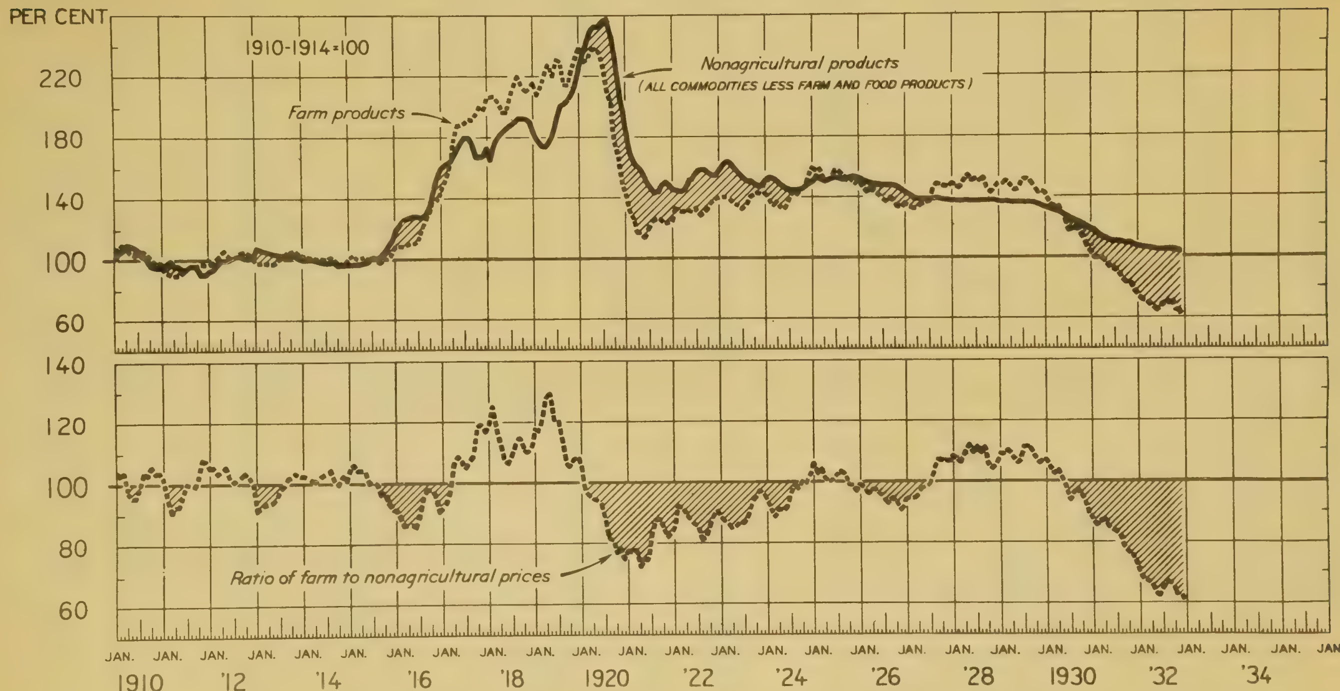


Figure 1.- Prices of farm and food products have fallen more than prices of nonagricultural products since 1929. From 1909-1914 prices for these two groups were comparatively stable and conditions were balanced. During the war period prices of the agricultural group rose faster, but when the deflation came these prices fell more than prices of nonagricultural products. Except for a brief period in 1925 and in 1928 and 1929, the ratio of farm and food prices to nonagricultural prices has been below the 1909-1914 average from 1920 to date.

Gross Farm Income and Selected Expenditures, 1910-1932

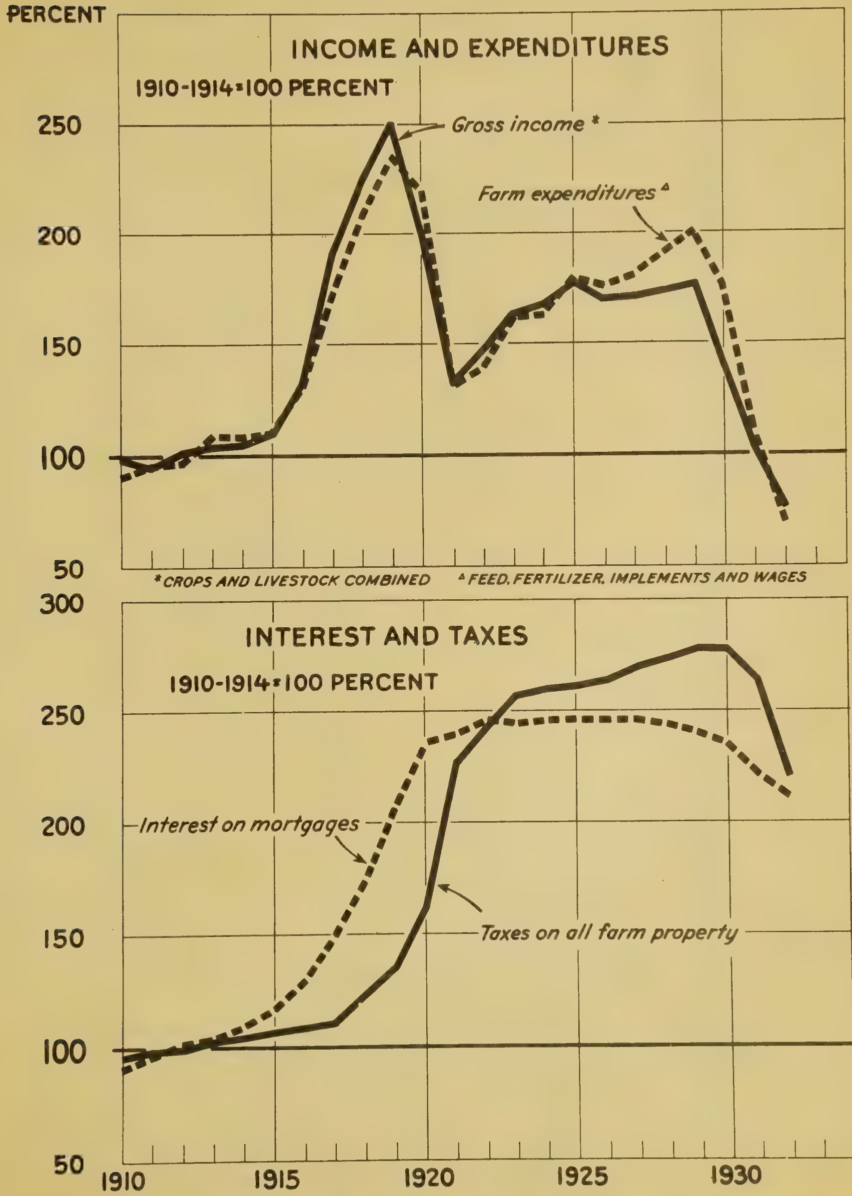


Figure 2.- Gross farm income fell sharply after 1929 and in 1932 was far below the 1909-1914 level. With the decline in income, farm expenditures were curtailed, but interest and taxes are still high.

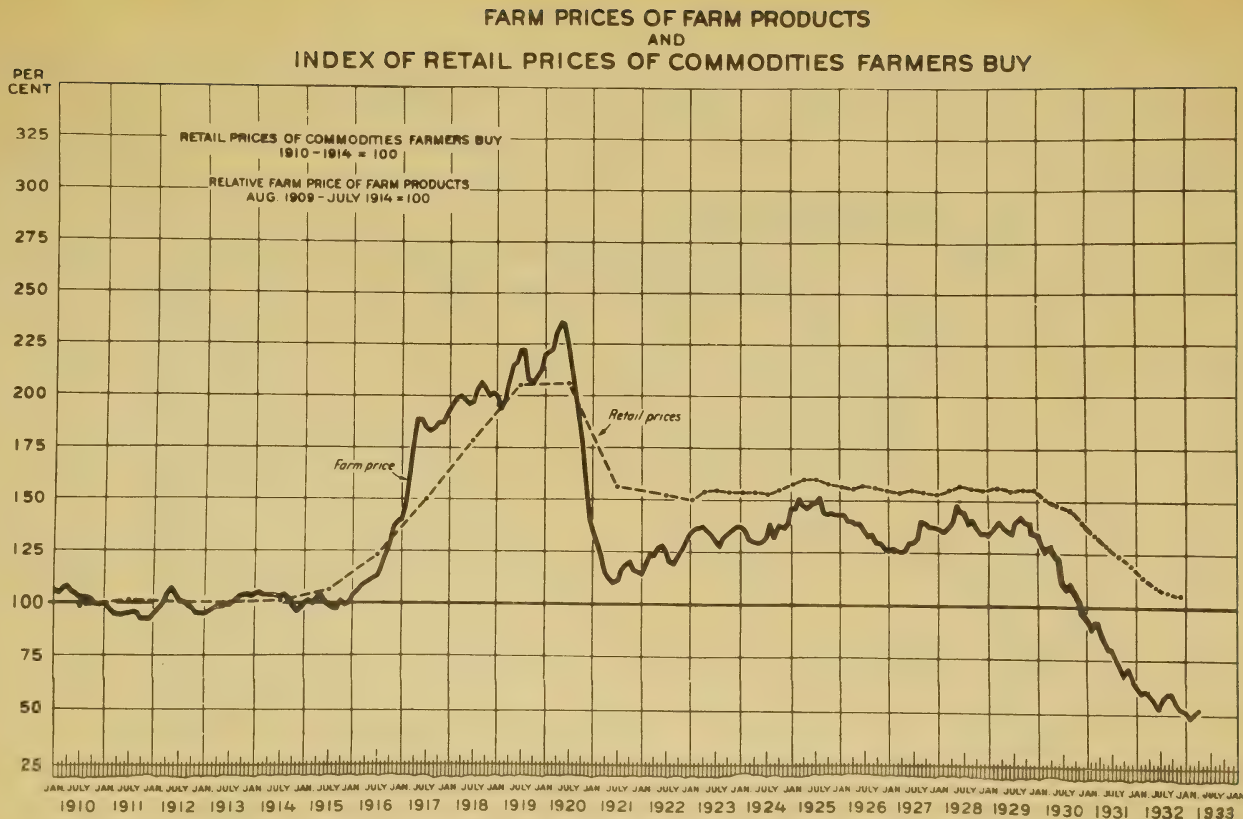


Figure 3.- During the war period prices received by producers for farm products were high compared with prices paid by farmers for things they buy, and farming was profitable. At no time since 1920 has that favorable price relationship prevailed, and from 1929 to 1933 the position of the farmer grew steadily worse. In February, 1933, farmers paid 101 percent of the pre-war price for things they bought, but received only 49 percent of the pre-war price for things they sold.

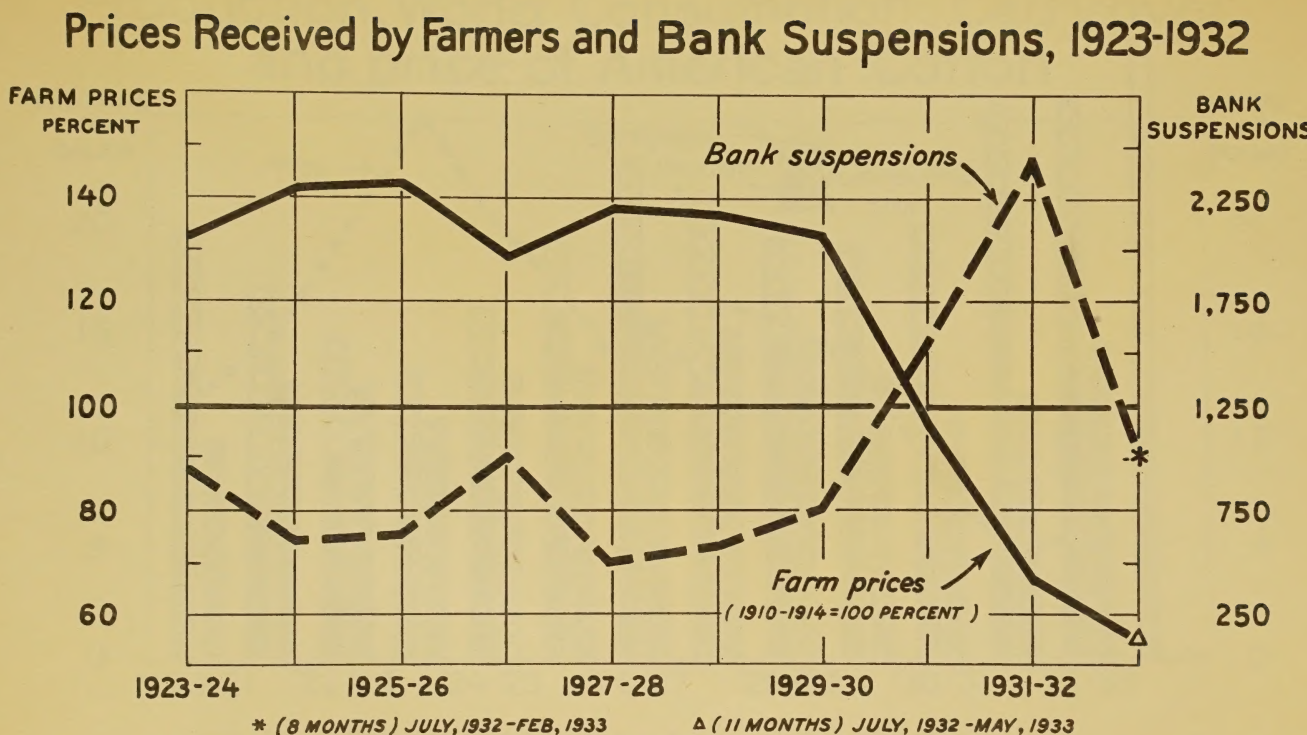
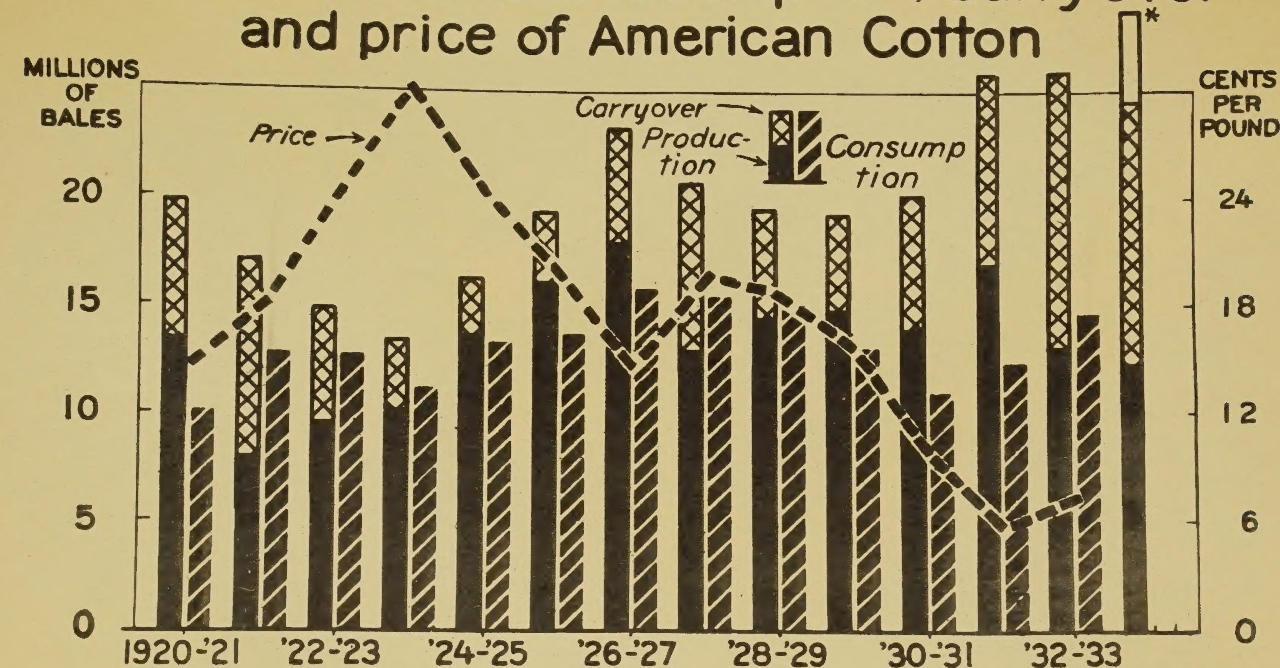


Figure 4.- The trend of bank suspensions in the United States varies closely with the trend of farm prices. Only the strongest banks were able to withstand the drastic price decline after 1929. Figures on bank suspensions in 1932-33 are not comparable with those for earlier years.

Production, World Consumption, Carryover and price of American Cotton



* WHAT SUPPLY WOULD HAVE BEEN WITHOUT ACREAGE REDUCTION, 1933

U.S. DEPARTMENT OF AGRICULTURE

NEG. 29071-C-F.S.S. BUREAU OF AGRICULTURAL ECONOMICS

Figure 5.- The seriousness of the present cotton price situation is shown by the decline since 1923. The present cotton surplus was built up after 1928 through low consumption and continued heavy production. The surplus is still larger despite the 1933 acreage reduction campaign, but without the campaign the supply would have been in the neighborhood of 29 million bales.